Fortifying the Group’s efforts to expand overseas and generating new businesses with the aim of securing steadfast growth

The first year of the “Challenge Up Plan,” Toyo Denki’s three-year medium-term management plan, came to a close at the end of the Company’s 14th business term, the fiscal year ended May 31, 2010. In looking back over the Toyo Denki Group’s efforts and subsequent results, I would like to provide details of the Group’s performance, particularly in the context of the established plan, outline several new initiatives aimed at securing further growth and discuss future developments.

Hiroshi Tsuchida
President

August 2010

An Interview with the President

Q: Please tell us about Toyo Denki’s business activities and results over the recently completed fiscal year.

In overall terms, orders received and net sales were up compared with the previous fiscal year due mostly to firm results in the Transportation Systems segment. From a profit perspective, on the other hand, both operating income and ordinary income fell sharply owing to the strength of the yen vis-à-vis the U.S. dollar. Clearly, the yen’s appreciation is a matter of growing concern, as it appears to have reached a plateau. Accordingly, Toyo Denki will focus its efforts on expanding orders in new business fields encompassing remote monitoring and wireless measurement systems.

Looking at business conditions in the immediate future, there are signs of a pickup in order activity most notably in the automobile industry both in Japan and overseas. I expect sales will surge by a significant margin starting in the second half of the fiscal year ending May 31, 2011.

Turning to results in the Information Systems segment, the Company witnessed a 60% year-on-year jump in net sales. This was largely attributable to deliveries of such products as an IC card-compatible equipment relating particularly to railway station operations and mobile terminals, the latter reflecting the growing use of a ticketing system that we believe appears to have reached a plateau. Accordingly, Toyo Denki will focus its efforts on expanding orders for new business fields encompassing remote monitoring and wireless measurement systems.

Please provide us with details of operating structure enhancements, including newly established facilities and departments, during the fiscal year under review.

Construction was completed in January 2010 on the Engineering Center, a new research facility, which is located within the site of the Company’s Yokohama Works. The principal functions of the China Promotion Department are to manage and oversee business development in China and to promote a comprehensive range of business activities from sales and marketing to after-care maintenance and service, extending well beyond the receipt of orders and product delivery. In addition, the Department manages and monitors the activities of two local joint-venture companies, which we believe are the key to Toyo Denki’s success.

We also expect to generate new orders, Toyo Denki is enhancing its after-care maintenance and service, extending well beyond the receipt of orders and product delivery. In addition, the Department manages and monitors the activities of two local joint-venture companies, which we believe are the key to Toyo Denki’s success.

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What is the status of progress under the “Challenge Up” medium-term management plan?

The fiscal year ended May 31, 2010 was the first year of the Group’s “Challenge Up” medium-term management plan, which has lasted for the three-year period through the fiscal year ending May 31, 2012. While in this first year, we were unable to fully meet the targets set under the plan, it was optimistically about a positive trend in demand in the fiscal year ending May 31, 2011. At current levels, we are confident that the Group remains on track to achieve its established three-year numerical targets. Please see below and the next page for more details regarding the plan.

From a number of basic policies included in the management plan, Toyo Denki places particular emphasis on stepping up the Group’s efforts to expand overseas and activities that generate new businesses.

What are your thoughts on the Group’s outlook for the fiscal year ending May 31, 2011?

On the domestic front, there are indications of an improvement in corporate earnings regulations, however, one cannot ignore the concerns raised by persistent deflation and the continuing strength of the yen. Under these circumstances, Toyo Denki will capture a steady recovery in domestic demand in the Industrial Systems segment, particularly in China. Through these efforts, the Group aims to boost orders received and sales and to improve its capital utilization, and subsequently to achieve a substantial upswing in profit margins.

In the Transportation Systems segment, we will continue to make sales and marketing calls overseas targeting high-speed rail and urban transportation vehicles and markets in Southeast Asia in the Industrial Systems segment.

What do you have any comments you would like to make to shareholders?

Toyo Denki remains sensitive to the need to balance concerns for ongoing business development and growth while providing adequate returns to its shareholders. In this regard, the Company maintains a basic profit distribution policy that strives to ensure adequate internal funds for growth and struggling to expand its business. It also maintains strategic investments aimed at promoting research and development as well as upgrading and expanding its facilities while at the same time providing shareholders with a stable cash dividend payment. Based on this policy, Toyo Denki has decided to pay a fiscal year-end cash dividend of six yen per share, unchanged from the previous fiscal year, for the fiscal year ending May 31, 2010.

At this stage, we are also projecting the same fiscal year-end cash dividend payment of six yen per share for the fiscal year ending May 31, 2011.

Toyo Denki recognizes that its future business environment remains clouded in uncertainty. We remain optimistic, however, of the underlying strength of our technological capabilities as well as our sales, marketing and service structure that collectively powers our future growth. With this as our basis, we will move resolutely forward to fortify the Group’s efforts toward overseas expansion and to generate new businesses. Toyo Denki will continue with efforts aimed at achieving the objectives of the “Challenge Up Plan.” By striving to take a further leap forward, we will significantly enhance our corporate value.

As a company engaged in activities that help to expand modes of transportation and basic infrastructure, we will redouble our efforts toward contributing to the ongoing development of society. As we work toward achieving our goals, we ask all shareholders for their continued interest, support and understanding.
In relocating the development and design functions to the Engineering Center, space available for production at the Yokohama Works increased by 12%. Together with the upgrade and expansion of facilities, production capacity improved by approximately 36%. The total investment cost in constructing the Engineering Center and redesigning the Works amounted to approximately 1.6 billion yen.

Upgrade and Expansion of Facilities

A newly installed lift made possible by the increased production space

Showroom

After a period of approximately one year, construction was completed on the Engineering Center in January 2010. In February 2010, approximately 300 development and design personnel commenced work in a fresh environment. In addition to general office areas, the Center boasts a showroom for the Company’s products as well as a laboratory and a library.

Environmental Friendly Facilities Employed at the Engineering Center

As a part of the Company’s CSR endeavors, the following environmentally friendly facilities were installed at the Engineering Center.

Solar power generator (output 12kW)
Wind power generator (output 1kW; wind force 12m/s)
Ice thermal energy storage system and other energy-saving equipment

Looking ahead, Toyo Denki will contribute to the development of society by delivering a host of products and systems to its customers both in Japan and overseas that address increasingly diversified and sophisticated needs.
China Promotion Department Established

Toyo Denki established the new China Promotion Department within the Transportation Business Division in April 2010. This initiative was a part of the Company’s efforts to build a business structure that is capable of addressing the rapid and dynamic growth in demand in China for railway infrastructure.

Toyo Denki places the utmost priority on engaging in detailed order activity, product delivery and after-care service that takes into full account the status of local conditions in China. At the same time, the Company collaborates closely with local joint-venture companies Hunan Xiang Yang Electric Co., Ltd. and Changzhou Ruiyang Transmission Technology Co., Ltd. Through these and other means, the Toyo Denki Group takes a united stance in pursuing its transportation business in China.

Toyo Denki also established the China Project Team within the Industry Business Division in April 2010 with the aim of further developing business in China.

CSR Report 2010 Published

Toyo Denki’s CSR Report 2010 was posted in Japanese on its website in July 2010. Toyo Denki is committed to contributing to society by delivering products and services that help to conserve energy and resources. At the same time, the Company engages in wide-ranging environmental contribution activities. This report and other information are posted online in an effort to provide readers with a better understanding of the Company’s CSR activities.

Website
Download the report (PDF):